Supreme Court, U.S.
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No. 95-1203

In The
Supreme Court of the United States
October Term 1995

DUNCAN McCOY, ALEX DORSETT
and ALEX-DUNCAN SHRIMP CHEF, INC.

Petitioners,

v.

MITSUBOSHI CUTLERY, INC.

Respondent.

On Petition for a Writ of Certiorari
To The United States Court of Appeals
For The Federal Circuit

BRIEF FOR RESPONDENT IN OPPOSITION

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QUESTION PRESENTED

May a manufacturer, who produced 150,000 patented and trademarked shrimp knives at the patent/trademark holders' request, resell those goods without committing infringement or business torts where the patent/trademark holders breached the parties' contract by refusing to pay?

RULE 29.1 LIST

Respondent Mitsuboshi Cutlery, Inc., a New York Corporation, is a wholly-owned subsidiary of Mitsuboshi Cutlery Co., Ltd., a closely-held Japanese Corporation.

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STATEMENT

We have nothing substantial to add to the unanimous opinion of the U.S. Court of Appeals for the Federal Circuit ("Federal Circuit").

ARGUMENT

I. RESPONDENT HAD THE RIGHT TO RESELL.

The Federal Circuit decided the case correctly. No conflict among Circuits is involved. Moreover, the case presents no issue of large public interest.

All that has been decided is that a manufacturer who produces a patented and trademarked product, pursuant to a contract with the patent/trademark owner, has a right to resell the product when the patent/trademark owner is unable or unwilling to pay for the distressed merchandise. *See* Petition at A-2, 67 F.3d at 919; *id.* at A-10; 67 F.3d at 922. Respondent's right of resale has long existed under the Uniform Commercial Code. *See* Tex. Bus. & Com. Code (hereinafter "Texas UCC") §§ 2.703(4), 2.706(a).

The Federal Circuit aptly referred to this resale right as an "implied license" for patent and trademark law purposes. The Court supported its reasoning with cases reaching as far back as the early 19th century. *See Wilder v. Kent,* 15 F. 217 (C.C. W.D. Pa. 1883) (sheriff's vendee at execution sale of patented goods in satisfaction of judgment against patent holder takes goods free of patent holder's monopoly); *Sawin v. Guild,* 21 F. Cas. 554 (C.C.D. Mass. 1813) (Story, J.) (sheriff's sale of

patented goods not patent infringement). In *Platt & Munk Co. v. Republic Graphics, Inc.*, 315 F.2d 847 (2d Cir. 1963), the Second Circuit approved the concept of an implied license authorizing a manufacturer's resale of copyrighted works where the copyright owner breaches a sales contract with the manufacturer.

There was, as the Court of Appeals correctly held, reason for reversal of the Texas judgment: "The jury found, and McCoy does not contest, that McCoy breached its contract." Petition at A-4; 67 F.3d at 920. Under contract law, Respondent had every right to resell to recover its losses. Thus, there simply was no legal basis for a jury to find that Respondent infringed the patent or the trademark, no legal basis for a finding that Respondent committed unfair competition, and no legal basis for a finding that Respondent tortiously interfered with Petitioners' business relations.

II. PETITIONERS' ARGUMENTS FAIL.

A. The Court of Appeals Sustained Respondent's Noninfringement Defenses.

The Court of Appeals did not "legislate" some new patent infringement defense contrary to 35 U.S.C. § 282. Rather, in substance the Court sustained Respondent's Sixth and Eighth Affirmative Defenses -- noninfringement. *See* Petition at A-66. Respondent's answer and counterclaim alleged that it resold to Admiral Craft "pursuant to its right to mitigate its damages." *Id.* at A-67, JA at 173. The Court of Appeals found no infringement because Respondent had the right to resell.

B. Respondent's Resale Right Was of Proper Scope.

The resale right or implied license did not exceed necessary limits. As the Court of Appeals observed: "The record contains no evidence that Mitsuboshi acted in bad faith. Instead, the record conclusively shows Mitsuboshi's good faith." Petition at A-16; 67 F.3d at 924.

Petitioners further argue that an implied license was contrary to various communications between the parties. Petition at 11. That evidence related to communications long after the contract was formed in January, 1991, not at the time of the original bargain.

As stated in the "Implied Contract" instruction (Jury Instruction No. 37), the original contract

> ... consist(s) of those terms on which the writings of the parties agree, together with any supplementary terms incorporated under any provision of the Texas Business and Commercial Code.

JA 78; Texas UCC § 2.207(c). One such supplementary term is the seller's contractual right of resale:

> Where the buyer wrongfully ... fails to make a payment due on or before delivery or repudiates with respect to a part or the whole, ... the aggrieved seller may ... resell and recover damages as hereinafter provided (Section 2.706)...

Id., § 2.703(4). This original contract term came directly into effect upon Petitioners' breach.

C. Respondent Pleaded Appropriately.

Respondent raised appropriate defenses in the District Court. It pleaded noninfringement and expressly alleged that Respondent resold the knives "pursuant to its right to mitigate its damages." *See* Petition at A-66, A-67; JA at 173.

The Petition blatantly misinforms this Court in stating that the implied license issue was not raised in the Court of Appeals. *See*, Petition at 12-13. Section C.1 of the Argument in our brief below was entitled "Mitsuboshi Was Licensed and Plaintiffs' Exclusive Rights Were Exhausted." At p. 18 our brief argued that Respondent's authorization to resell "may be referred to as an implied license."

D. Respondent's Right of Resale Arose Upon Petitioners' Breach of Contract.

The right to resell arises immediately upon breach. *See, e.g., Hart v. Sims*, 702 F.2d 574, 578-80 (5th Cir. 1983) (Texas UCC §§ 2.703 and 2.706 authorized immediate resale.) This right does not disappear if the resale later proves to be commercially unreasonable or even in bad faith. Texas UCC § 2.706(a) provides that in every case where the buyer breaches, "*the seller may resell the goods.*"

The Comment to Texas UCC § 2.706 elaborates:

> 1. *The only condition precedent to the seller's right of resale ... is a breach by the buyer....* Under this section *the seller may resell the goods after any breach by the buyer...*

> 2. In order to recover the damages prescribed in subsection (1) the seller must act "in good faith and in a commercially reasonable manner" in making the resale. ... *Failure to act properly under this section deprives the seller of the measure of damages here provided and relegates him to that provided in Section 2-708...*

(Emphasis added.) Thus, the seller's reasonableness or good faith in the manner of resale has to do only with the measure of the seller's damages. *Mott Equity Elevator v. Svihovec*, 236 N.W.2d 900, 908 (N.D. 1975).

E. Petitioners' State Law Claims Lacked Merit.

Petitioners claim that Respondent did not plead "legal justification or excuse" as a defense to the tortious interference claims. Petition at 14-15.

The pleadings gave Petitioners ample notice of a justification defense. Moreover, Fed. R. Civ. P. 15(b) provides that even issues not raised by the pleadings "shall be treated in all respects as if they had been raised in the pleadings" where tried by express or implied consent. The justification issue was tried and submitted to the jury. Respondent satisfied any burden of proof because the jury sustained its contract claim.

Regarding the unfair competition claims -- Federal and state -- *both* were tried and submitted under one theory: "Likelihood of confusion." Instruction 14, the Magistrate Judge's one jury charge relating to this aspect of the case, stated: "The critical determination for a finding of unfair competition is that potential customers will be confused as to

the source of the trade-marked shrimp knives." JA 75. As the Federal Circuit recognized, there can be no likelihood of confusion where the goods resold are the genuine product. JA at A-13 - A-15; 67 F.3d at 923-24. *Matrix Essentials v. Emporium Drug Mart,* 988 F.2d 587 (5th Cir. 1993). Not until reaching the Court of Appeals did Petitioners invent new state law theories of unfair competition based upon separate torts.

Petitioners' attack on the Federal Circuit's state law unfair competition discussion ignores the Court's holding that the tortious interference claims failed as a matter of law. With those "independent substantive tort claims" removed, there can be no finding of unfair competition under Texas law. *Schoellkopf v. Pledger,* 778 S.W.2d 897, 904-905 (Tex. Ct. App. 1989), *error denied* (1990).

F. Petitioners Misstated Certain Facts.

Petitioners never "canceled" the order for 150,000 shrimp knives. *See,* Petition at 3. Otherwise, the jury would never have found for Respondent on the breach of contract counterclaim. Petition at A-25, A-26 (Jury Questions 16 - 19).

Petitioners use another failed jury argument in contending that A.T.D. Marketing, Inc. ("A.T.D."), ordered the 150,000 shrimp knives rather than Alex-Duncan. Petitioners wrongly state that "there was never any agreement by Alex-Duncan to take or pay for the other 120,840 (sic) knives of the A.T.D. contract." *See,* Petition at 3-4.

As the Court of Appeals recognized:

> ... McCoy and Mitsuboshi had a long-standing business relationship whereby Mitsuboshi manufactured McCoy's patented knives. In 1991, McCoy placed a purchase order for 150,000 knives with Mitsuboshi. Mitsuboshi, in turn, accepted the order and performed its obligations under that agreement. *When it tendered the knives to McCoy, McCoy breached the contract by failing to pay....*

Petition at A-9; 67 F.3d at 922 (emphasis added).

CONCLUSION

For the foregoing reasons, the Petition for a Writ of Certiorari should be denied.

Respectfully submitted,

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